

THE CLARIFICATION OF SME'S FINANCIAL SERVICE NEEDS: CREATION OF THE BASE SERVICE PACKAGE

Work-in-progress paper

ABSTRACT

Small and medium sized enterprises (SMEs) constitute a large group of firms within the Finnish economy. Because of this the majority of the banks' and insurance companies' corporate customers are SMEs. Compared to larger enterprises that have their own financial departments within the company, SMEs can be generally considered as less knowledgeable considering financial services. In many cases the entrepreneur alone, who may not have any advanced financial education, are responsible for the financial matters of the company. The motivation for this research comes from the SME's time consuming and complex process of acquiring the right financial services. To make it easier for the SMEs to identify their financial service needs and acquire the right services to fit these needs, financial services should be offered in the most comprehensible way possible. The aim of this research is the clarification of SMEs' financial services needs. The clarification will be based on theories of solutions, modularity and the base service package.

Sawhney (2006, p.369) determines solutions as "an integrated combinations of products and services customized for a set of customers that allows customers to achieve better outcomes than the sum of the individual components". This paper examines the creation of the bundle (the base service package) as a way of achieving the clarification of SMEs' financial services needs. The base service package can be seen as an entity of different partial services. The purpose of the base service package is to clarify customers purchase decisions and, on the service provider's point of view, speed up the selling process which is also one of this study's purposes. This base service package consists of service modules. Thus, as a part of the base service package formation we use the idea of modularization. Modularity enables mixing and matching so that the final product fits the needs of the buyer.

To clarify what financial services SMEs commonly need, both, the qualitative and quantitative research methods were used in this research. First, in the qualitative part, the representatives of both banks and insurance companies were interviewed. As a result from the interviews we defined the financial services that are currently offered for SMEs. With the help of the interview results, we formed a quantitative survey for the SMEs. The survey gathered information about what financial services SMEs commonly use. It was also inquired if the SMEs had some needs that the existing financial services could not satisfy.

As a prior result of this study the base financial service package for SMEs was created. In addition five additional packages were formed for certain type of SMEs. These six packages offer a good starting point for defining the financial services that a specific SME needs. In addition this research aimed to find possible service gaps in financial service offering for the SMEs. 18 not existing bank services were suggested and seven insurance services were proposed but all the proposed insurance service already existed. This means that there are new bank service possibilities and that SMEs do lack the knowledge especially on insurance services.

Keywords: base service package, financial services, modularity, SMEs, solutions

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INTRODUCTION

There are many players in the financial service sector. These players represent companies that offer bank, insurance and/or investment services. In Finland insurance companies also handle statutory insurances like employee pension insurance and accident insurance. (Kontkanen, 2009, p.17) This research is limited only to banks' and insurance companies' offerings for SME customers of the financial institutions. SMEs constitute a large group of firms within the Finnish economy. In the year 2008 99,8 per cent of all Finnish enterprises were SMEs (Statistics Finland, 2009). Because of this the majority of the banks' and insurance companies' corporate customers are SMEs which means that SMEs are an important group for them and should gain attention in researches. In this research the European Commission's (2005, p.14) recommended definition of SMEs is used. According to it companies employing fewer than 250 persons and having an annual turnover below 50 million Euros or a Balance Sheet total less than 43 Million Euros, are considered as SMEs.

SMEs can be generally considered as less knowledgeable considering financial services, compared to larger enterprises that have their own financial departments within the company. In many cases the entrepreneurs alone, who may not have any advanced financial education, are responsible for the financial matters of the company. Their knowhow is in their products and operations, not in the financial services. The motivation for this research comes from the SME's time consuming and complex process of acquiring the right financial services. To make it easier for the SMEs to identify their financial service needs and acquire the right services to fit these needs, financial services should be offered in the most comprehensible way possible. When financial services are presented in a distinct, well-defined way, it is much easier for the SMEs and also for the financial service providers to identify what services the SMEs need. The aim of this research is the clarification of SMEs' financial services needs. This will be done by utilizing the theory of solutions, modularity and the base service package.

Miller, Hope, Eisenstat, Foote and Galbraith (2002, p.3) define solutions as "integrated combinations of products and/or services that are unusually tailored to create outcomes desired by specific clients or types of clients". Solutions are highly customer oriented and solution bundle creates more value for customers than modules within the bundle could separately do (Miller et al., 2002, p.3; Brax & Jonsson, 2009, p.541). This modular product is composed of modules that one can take out or add without having to change the overall product design or other modules within the product (Sanchez, 1995, p.142). When modules are decomposed to simple parts they can be managed independently and after the changes they can be put together to the modular product to function as a whole (Baldwin & Clark, 1997, p.86). In solutions customers can buy the whole bundle of modules (products/services) or they can buy just some of them (Davies, 2004, p.736).

SMEs financial service needs are partially heterogeneous and partially homogeneous and in addition choosing the right financial services is difficult for them. Schilling (2000, pp.317, 322) argues that in these cases totally modular offering is not suitable. Thus, we exploit a bundle of products (a base service package) as a way to do the clarification of SMEs' financial services needs. The base service package consists of service modules that can be taken out or added to the package. It is a simplified package that all non-valuable features

have been eliminated. (Anderson, Hagen, Reifel & Stettler, 2006, p.22) The purpose of the base service package is to clarify customers' purchase decisions and speed up the selling process (Sipilä, 1996, p.65). Thus, the base service package brings benefits to both, the customer and the service provider.

Considering the existing research of the topic, for example De Blok et al. (2010) have recently studied modular service package construction in elderly care services. In addition Voss and Hsuan (2009, pp. 566-568) introduced an example of modularity in the financial sector. In this case, a bank gained competitive advantage through the modularization of its offering. The previously mentioned research was completed in a single case setting of a certain bank and from the provider's point of view. The issue has not been studied from the customers' (here SMEs') perspective. This is an important notification since the service literature heavily points out the importance of customer's perspective. In this research modularization is investigated in more general level, with the base service package, in the context of SME customers and by including insurance services into the research.

In this research the qualitative research method was used first by interviewing banks and insurance companies' representatives. As a result from the interviews, we defined the financial services that are offered for SMEs at the moment. With the help of the interview results we formed a quantitative survey for the SMEs. The survey gathered information about what financial services SMEs commonly use. It was also inquired if the SMEs had some needs that the existing financial services could not satisfy. A good group of 599 responses was received from the survey. As a main result of this study the base financial service package for SMEs was created with five additional packages for certain type of SMEs. These packages offer a good starting point when defining the financial services that a specific SME needs. In addition this research aimed to find possible service gaps in financial service offering for the SMEs. 18 not existing bank services were suggested and seven insurance services were proposed but all the proposed insurance service already existed. This means that there are new bank service possibilities and that SMEs do lack the knowledge especially on insurance services.

This paper begins with discussion of solutions theory leading up to the theory of modularity and continues by introducing the concept of the base service package. Next the research methodology is presented and after this we will present the sample that was gotten from the survey and continue by presenting the results. Finally we will briefly make some conclusions based on the results and propose some future research topics.

LITTERATURE REVIEW

SOLUTIONS

Miller et al. (2002, p.3) describe solutions as follows: solutions are "integrated combinations of products and/or services that are unusually tailored to create outcomes desired by specific clients or types of clients". In addition Sawhney (2006, p.369) defines solutions as "an integrated combinations of products and services customized for a set of customers that allows customers to achieve better outcomes than the sum of the individual components". Miller et al. (2002, p.3) note that with solution bundle more can be accomplished than with what can be accomplished with an individual product. The sum of parts brings more value for the customer (Brax & Jonsson, 2009, p.541). The difference between product and solution is the fact that products are mostly about functionality whereas solutions' focus is on the making customers' life easier or better (Miller et al., 2002, p.3). Solution providers should ask themselves what they could do to help their customers to achieve better outcomes and

succeed in their markets (Cornet, Katz, Molloy, Schädler, Sharma & Tipping, 2000, p.2). Brax and Jonsson (2009, p.541) include the long-term oriented relationship, integration of provider as part of customer's business systems and optimization of the total cost for the customer to the solutions attributes.

Solutions have both the integrative aspect and the customization aspect (Miller et al., 2002, p.3). It is hard to find customers that have completely same needs. The power of solutions comes from the fact that solutions are customized for specific segments or even for specific customer (Sawhney, 2006, p.370) but usually completely customize solutions are also too expensive to produce. In solution thinking the main aspect is client-centric but viable solutions has to be beneficial also for the supplier. When totally customized solution is displaced by modular platforms the costs are reduced and real solution surplus can be achieved. (Miller et al., 2002, pp.6-7, 12) The amount of customization is always reflected from the situation. For example, Dell Computer offers individual consumers opportunity to buy the computer with various predetermined components. These components are easy to combine or change and can be called modules. For bigger and important customers like companies Dell provides much more customized solutions. (Cornet et al., 2000, p.6)

Tuli, Kohli and Bharadwaj (2007, pp.3-4) noted three commonalities arising from previous literature involving solutions: solutions include both goods and services; these parts are designed to address a customer's specific needs (customization); and each part must work with other parts within the solution (integration). For financial service package these are valid. They consist of products and services that work together and are always mapped for each individual customer. Tuli et al. (2007, p.5) also widen the view of solutions into process centric path. In their research they found four process centric parts of solution: the definition of customers' needs, customization and integration of solution's parts, the implementation process of the parts and post-deployment customer support. They also accentuate the essentiality of provider's ability to identify customer's needs since customers usually have limited understanding of their own needs. (Tuli et al., 2007, pp.5-6)

In this research we will concentrate in the product centric part of solutions. It includes the customization and integration of solution parts (Tuli et al., 2007, p.5). These parts we will call modules like Davies (2004, p.736) has done. When building solutions provider should take well standardized modules and tailor them with great understanding about their customers. This is the most realistic and economic approach to the building of solutions. (Cornet et al., 2000, p.7) Customers can buy the whole bundle of products or they can buy just some parts (modules) of it. This is because customers have different needs and capabilities. (Davies, 2004, p.736)

MODULARITY

Ever since Starr introduced modularity in the year 1965 modularity has been a research topic in management and engineering literature (Starr, 1965; Salvador, 2007, p.1; Voss Hsuan, 2009, p.543). Traditionally the research on modularity has focused on the design of products (Baldwin & Clark, 1997) but nowadays modularity is also studied in the context of services (Pekkarinen & Ulkuniemi, 2008; Voss & Hsuan, 2009; de Blok, Luijkx, Meijboom & Schols, 2010). Modularity can be seen as way to organize complex products and processes efficiently. Tasks and parts of products can be managed independently when they are decomposed to simple parts. These decomposed parts are called modules. Modules are designed separately and then put together to function as a whole. (Baldwin & Clark, 1997,

p.86) Sanchez (1995, p.142) notes that one can take out or add modules to modular product without having to change the overall product design or other modules within the product.

Schilling (2000) has developed a general theory of modularity. She defines modularity as the degree to which the components of the system can be separated and put together to create a product that is customer oriented. After the changes, the product should function as well as it did before the changes, and only a small amount of functionality loss is permitted. (Schilling, 2000, p.315) For a modular product to function, the interfaces between the modules should be standardized (Sanchez & Mahoney, 1996, p.70). These interfaces represent how the modules interact with each other. Another matter closely related to modularity is the architecture. It determines which modules are parts of the system and what the functions of these modules are (Baldwin & Clark, 1997, p.86).

Modularity can be described with an idea of a puzzle. Each piece of a puzzle is a module and these pieces can be put together to create a finished puzzle which represents the whole product. One can change the picture or the surface material of the pieces as long as the borders stay the same. Picture and surface material are the characteristics of a module and borders represent the standard interfaces between the modules.

Modularity is also applicable in services. According to Pekkarinen and Ulkuniemi (2008, p.87) modular service can be combined either from only one service module or several service modules. Modules are service elements or processes. Service element (module) equivalents product component and these are seen as the smallest units into which services can be divided. Process module is seen as a standardized process step that cannot be divided. (Pekkarinen & Ulkuniemi, 2008, p.87) Voss and Hsuan (2009, pp.546-549) see modularity differently. They argue that there are several levels that modules can be formed from, which means that if needed modules can be divided into smaller modules. Thus, module might not be the smallest unit of service. In this research the latter approach is used.

Schilling (2000, p.317) argues that a modular system is superior when inputs and demand are heterogeneous. In the case of input being heterogeneous and demand being homogenous, a non-modular system should be used. In this case all customers want the same thing and due that there is no reason to have modular systems. (Schilling, 2000, p.317) In the context of financial services SMEs have some basic needs which are homogeneous and in addition SMEs have various heterogeneous needs that depend on many facts like the size of the company and their line of business. Schilling (2000, p.322) also noted that if customers have hard time choosing the right components, a totally modular offering is not the right answer. Choosing the right financial services is often hard for SMEs because usually the SMEs knowledge, at least in case of the smaller companies, is in their own products and operations, and not in the financial services. If this process is made quicker, SMEs would have more time to concentrate on their own operations that bring value for the company. In addition financial institutions could handle more customers in the same amount of time. Thus, we argue that speeding up this process would be beneficial for both parties. Höytyläinen and Möller (2007) noticed in their research that with modular service offering customer satisfaction could be increased while simultaneously reducing the service production costs because modular service offering reduced the service delivery time and improved the service functionality.

We have now concluded that SMEs needs are partially heterogeneous and partially homogeneous and furthermore choosing the right financial services is difficult for them. Due to these reasons totally modular offering is not the right way to clarify the financial services

for SMEs. This is why we exploit a base service package as a way to do the clarification but also keeping in mind the modularity.

THE BASE SERVICE PACKAGE

Services should create value for both, the customers and the service providers (Valminen & Toivonen 2009, p.13), and according to Anderson et al. (2006, p.22) this can be achieved by formatting a base product that can be altered by adding standard components. A base product is simplified and standardized product which all non-valuable features have been eliminated (Anderson et al., 2006, p.22). Sipilä (1996, p.64) argues that service package can be seen in two ways. Firstly it can be a synonym for a service that only highlights different parts of the service. Secondly the service package can be seen as an entity of different services that are put together to create a bundle. In this research the latter definition is used.

Sipilä (1996, p. 65) defines that the purpose of the base service package is to clarify customers purchase decisions and, on the service provider's point of view, speed up the selling process which is also one of this study's purposes. He also states that the base service package consists of service modules. Thus, as a part of the base service package formation we use the idea of modularization. Since the base service package can help to clarify the financial service needs for SMEs and speed up the selling process, it suits for this research purpose perfectly. Figure 1. presents an illustration of a base service package constructed based on Anderson et al.'s (2006, p.22) and Sipilä's (1996, p.64-65) above-mentioned definitions.

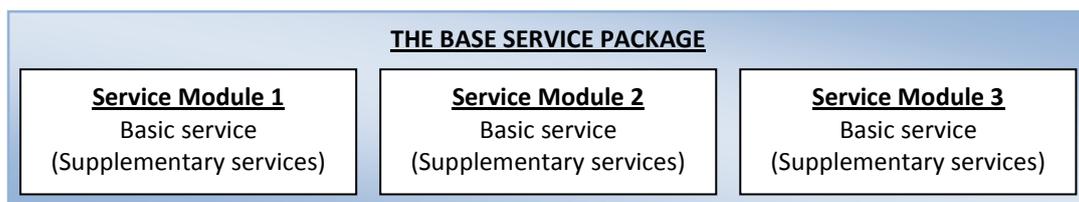


Figure 1. *The theoretical base service package*

Service module in banking context could be for example the corporate bank account. This service module might include bank account as a basic service and the corporate card as a supplementary service. In a one sense service module can be described as an augmented version of the basic service. In addition it can only include the basic service and not any supplementary services. In this case the basic service illustrates the whole service module. In this research the focus is on finding the right service modules for the financial base service package for SMEs. Some service modules in the package will only include the basic service and some service modules might include few supplementary services in addition to the basic service. Besides the base service package additional packages will be formed. The additional packages will be for certain types of SMEs that have commonalities in what financial services they use.

RESEARCH METHOD

To clarify what financial services SMEs commonly need, both, the qualitative and quantitative research methods were used in this research. First, in the qualitative part, the representatives of both banks and insurance companies were interviewed. This was done to confirm the hypothesis of SMEs poor knowhow of what financial services they need and to get information about what services bank and insurance companies currently offer. The interviews included four banks and five insurance companies. One of these insurance companies had also banking services. The interviewed companies were the main players in

their field in Finland. Most interviewees were senior vice presidents, development managers or product managers in their company. In addition three account managers were interviewed from one bank to get the closer information from direct customer interface. The interviews were semi-structured and included questions about company's offering, the service packages, the selling process, the pricing methods and their SME customers' knowhow about what services they need. Interviews lasted about one hour and were taped and afterwards transcribed into the letter. Interview results were gone through and some similarities were found. Firstly, it can be concluded that bank and insurance companies' personnel think SMEs do not know what financial services they need. On the other hand interviewees say that if SME has an educated person or separate department to handle financial matters, the knowledge of company's financial service needs is good. Interviewees also thought that bank service needs are slightly better understood than insurance service needs. Secondly, the offering was found to be so wide that even the bank and insurance companies' personnel had hard time describing their whole offering. This is why we also used banks' and insurance companies' webpages when we created the list of all the bank and insurance services that are currently offered.

A quantitative survey for the SMEs was formed based on this list to find out what financial services SMEs currently use. This survey was pretested by four SMEs to make sure that the questions were understandable. In the pretest the survey was found to be ready. For the main survey the sample companies contact information was bought from Fonecta which is Finnish media company. Together 8400 managing directors e-mail addresses were bought. The amount was high because the subject was anticipated not to be interesting for the SMEs. How interesting the subject is affects the willingness to response. In addition the facts that the survey was for business people and it was quite long most likely reduce the response rate. (Greer, Chuchinprakarn & Seshadri, 2000, p. 106) Survey was done with Webropol online survey software and the link to the survey was send by e-mail to the sample group with a cover letter describing the research. The survey gathered information about what financial services SMEs commonly use by asking respondents to mark all the bank and insurance services they use at the moment. In the survey the services were divided into groups between banking and insurance services. Inside these two groups services were again divided to smaller groups. From banking these groups were: payment transactions and cash management; financing; saving and investment; and international services. Insurance services were divided into following groups: accident insurances; employee pension insurances; supplemental insurance coverage; human resource risk management; and property insurances and operational risk insurances. In the survey it was also inquired if the SMEs had some needs that the existing financial services can not satisfy. With this we tried to identify possible service gaps in the demand of financial services.

Together 8400 e-mails were sent but not all of these e-mails got through the firewalls and in addition some e-mail addresses bought from Fonecta were not valid anymore. An e-mail was received if the survey did not reach the respondent and based on these returned e-mails the amount that did not go trough was 1403. This means that 6997 SMEs got the survey. Respondents were given twelve days to answer. After these twelve days and a weekend a follow-up e-mail was send and respondents were given additional one week to answer to the questionnaire. Follow-up e-mail is effective because in many cases when the first e-mail is received, the receiver might not have time to complete the survey right away (Greer et al., 2000, pp.106-107). In these cases follow-up e-mail acts as a good reminder. In this study before the follow-up e-mail 311 responses were received and after the follow-up e-mail additional 289 responses were received. Together 600 answers were gotten, but due to some

technical issues with Webropol one respondent's answers were not completely saved. This respondent's answers were deleted from the results which leaves us with 599 responses out of 6997 that received the e-mail, thus the response rate for the survey was 8,6 per cent. From the results the percentual usage (how many of SMEs use the service) of every service was calculated and if the service was used by more than 50% of SMEs, it was seen to belong to the base service package. In addition we searched commonalities and differences among certain type of SMEs. Some consistency was found and five additional packages were formed.

RESEARCH FINDINGS

DESCRIPTION OF THE RESPONDENTS

Respondents were asked some basic information about their company and themselves. Overall good sample was gotten from the survey. The information asked about company was the following: the revenue of the year 2010; the amount of employees; the line of business; the main market area; do they have operations internationally; and the age of the company. Revenue of the respondent companies varied quite well but companies that had revenue less than 40 000 or 10 000 000 or more Euros were lacking from the received sample. Only 6,3% out of all respondents belonged to one of these groups. Besides the revenue, company's size was inquired by asking the amount of employees. Most of the companies had under ten employees (79,5%), but also bigger companies were represented in the sample. Appendix 1. illustrates the division of the respondents based on their revenue and the division of different sized companies (according to the amount of employees).

The line of the business among respondents was 'other service business' in 38,9 % of the responses which was the highest share of respondents. The only line of business that was not well covered was transportation and warehousing. All the other lines of business were well presented in the sample. The main market area was also inquired and 43,4 % of the companies was from the main metropolitan area in Finland. 24,4 % of the companies had also some operations internationally and to 2 % of the companies reported that their main market area was outside Finland. There was also a good division of different aged companies among the respondents. The youngest company was one year old and the oldest company was 125 years old. The average age of the companies was 17 years.

The information gathered considering the respondents themselves was gender, age and the respondent's position in the company. Every third of the respondents was a female and respondents represented all working age groups, though most of the respondents (67 %) were between 40-59 years. In addition most of the respondents (89,7 %) were entrepreneurs or hired vice presidents.

DISCUSSION OF FINDINGS

We begun to process the survey results by searching what are the services that most SMEs use from banks and insurance companies. The services that were used by more than 50 percent of SMEs were seen to belong into the base service package (see Figure 2.). There are two types of services the ones that can exist on their own (basic services) and the ones that need some other service to be able to exist (supplementary services). Service module one has both of these but all the other service modules consist of only the basic service.

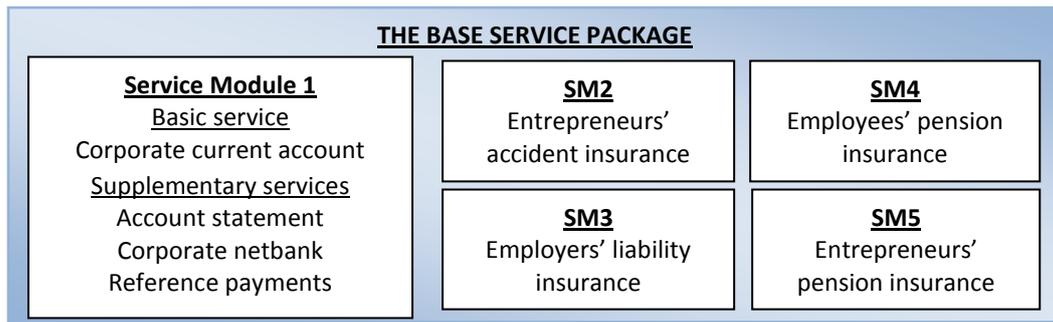


Figure 2. The base service package for SMEs

After formatting the base service package we continued by searching the distinguishing characteristics of SMEs which affect their financial service usage. In other words, we looked if certain types of companies use the same financial services in addition to the base service package's services. The characteristics that we looked into were the amount of employees in a company, the revenue of the year 2010, the line of business and the fact that does the company have some operations internationally. The characteristics that were found to affect the usage of financial service were: company has revenue at least 400 000 Euros, company's line of business is industry, construction or trading and the fact that company has operations internationally. Additional packages were formed to cover the service needs of these kinds of SMEs (see Figure 3.). For example if a company has revenue more than 400 000 Euros and its line of business is trading it needs the base service package and the additional packages one and four.

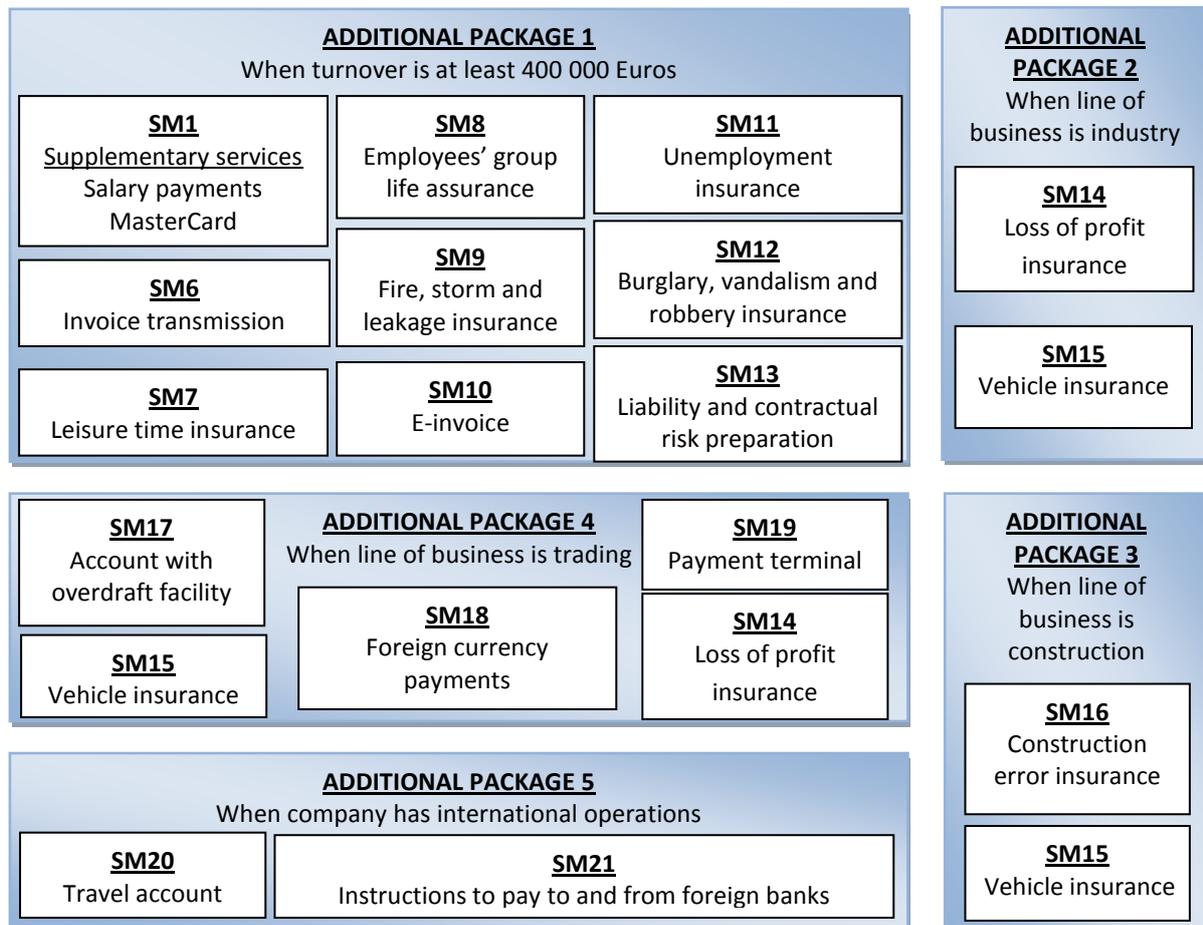


Figure 3. Additional packages

It has to be noted that the packages purpose is to be helpful for the SMEs; to clarify what financial services they most likely need. Packages should act only as a base in SME's total financial service need evaluation and the total financial service package must always be tailored to meet the specific SME's needs. This might mean that certain SME does not need all the services from the packages or it needs some services that are not in the packages.

Another aim of this research was to find out if there are some service needs that current financial services cannot fulfill. We analyzed the answers given to these questions and looked if the service needs mentioned in the answers really do not have services to cover them. It was found out that there were 18 proposed banking services that do not exist. In addition seven insurance services were proposed but which all existed already.

CONCLUSIONS

There was found to be a lack of information about how the theory of the base service package can be exploited in bank and insurance services and when taking the customers' point of view. This research aimed to fill this information gap by creating the base financial service package based on the financial service usage of SMEs. The main reason why the focus was on SMEs was their incomplete knowledge of their own financial service needs which this study aimed to clarify for them. The base financial service package for SMEs includes the financial services which all SMEs commonly use. In addition five additional packages were formed to cover the needs of certain types of SMEs. The packages are a good starting point when defining the financial services that a specific SME needs. In the future a case study should be performed to enhance the packages. In the case study it should be evaluated how SMEs handle their financial service buying; how they make the decisions about what financial services they need. These packages should also be tested by SMEs to see if they find the packages useful.

Second outcome from this research was finding out if there were some services missing in the financial service offering for SMEs at the moment. These gaps were found from banking services but not from insurance services. The missing services will be presented to banks and this knowledge will help banks to further evolve their offering. Since there were only seven proposed insurance services that all already existed, we can say that the SMEs' knowledge of insurance services is not good. It can also be concluded that the bank services are known better than insurance services. This part of the study could also be enhanced by a case study. In the case study a researcher should visit some SMEs and in his own eyes observe the possible financial service needs and in addition have deep conversations with company's employees.

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APPENDIX

APPENDIX 1.

Respondents' revenue in the year 2010

Revenue in the year 2010 (€)	Amount of respondents (%)
below 40 000	3,8
40 000 - 99 999	24,2
100 000 - below 400 000	31,4
400 000 - below 2 000 000	22,9
2 000 000 - below 10 000 000	15,2
10 000 000 or more	2,5

Respondents' amount of employees

Amount of employees (persons)	Amount of respondents (%)
1	24,4
2 - 4	36,7
5 - 9	18,4
10 - 19	8,5
20 - 49	8,7
50 or more	3,3